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Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 FEAE-00 H-02 SS-15 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 STR-04 TRSE-00 /091 R

DRAFTED BY EB/ORF/FSE:LRRAICHT:MEP
APPROVED BY EB - JULIUS L. KATZ
EUR/CAN - DBLAKEMORE
FEA - RSANDS (SUBS)
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P 091548Z MAR 76
FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA PRIORITY

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E.O. 11652:N/A

TAGS: ENRG

SUBJECT:CANADIAN NATURAL GAS

1. DEPARTMENT REGRETS DELAY IN FORWARDING FOLLOWING LETTER DATED FEBRUARY 9 FROM SENATOR HUBERT H. HUMPHREY, CHAIRMAN, JOINT ECONOMIC COMMITTEE FOR AMBASSADOR. QUOTE:

HONORABLE THOMAS O. ENDERS
AMBASSADOR TO CANADA
UNITED STATES DEPARTMENT OF STATE
2201 C STREET, N.W.
WASHINGTON, D.C. 20520

DEAR AMBASSADOR ENDERS:

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THE MAJOR CANADIAN-AMERICAN ENERGY ISSUE INVOLVES NATURAL

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GAS. CANADA WILL HONOR EXISTING NATURAL GAS CONTRACTS ON A SEASON-BY-SEASON BASIS. FRANK ZARB INDICATED ON FEBRUARY 5TH, THAT CANADA WILL NOT CURTAIL GAS EXPORTS DURING THE 1976-1977 HEATING SEASON. I HOPE THIS INDICATION IS BORNE OUT BY EVENTS.

IT IS IMPORTANT THAT OUR NATURAL GAS DISTRIBUTORS KNOW IF A MASSIVE CURTAILMENT OF CANADIAN GAS EXPORTS IS LIKELY WITHIN THE NEXT THREE TO FIVE YEARS.
IT IS ALSO IMPORTANT TO ASCERTAIN WHETHER CANADA, IN THE EVENT OF A GAS CURTAILMENT, WILL PERMIT A UNITED STATES AGENCY TO DICTATE THROUGH WHICH INTERNATIONAL GAS LINES SUCH CURTAILMENTS OCCUR. SOME SEVEN LINES NOW CROSS OUR BORDER, AND EFFECTIVE GAS ALLOCATION IN THE EVENT OF A CURTAILMENT IS IMPOSSIBLE WITHOUT CONTROL OVER FLOWS THROUGH EACH LINE.

I WISH YOU A FRUITFUL STAY IN OTTAWA.

SINCERELY,

HUBERT H, HUMPHREY, CHAIRMAN
END QUOTE.

2. FOLLOWING IS DRAFT RESPONSE TO HUMPHREY LETTER YOU MAY WISH TO USE IN REPLY.
QUOTE: I HAVE JUST RECEIVED YOUR LETTER OF FEBRUARY 9 THROUGH THE DEPARTMENT OF STATE.

I AGREE WITH YOUR ASSESSMENT COMPLETELY. MODIFICATIONS IN CANADIAN DOMESTIC ENERGY POLICIES CONCERNING NATURAL GAS LAST YEAR TO INCREASE THE WELLHEAD PRICE AND THUS RAISE THE RETURN TO PRODUCERS RESULTED IN A STRONG UP-SURGE IN NEW DRILLING FOR NATURAL GAS IN WESTERN CANADA THIS PAST WINTER. THE INCREASE IN NATURAL GAS PRICES TO CONSUMERS ALSO RESULTED IN A SHARP DECLINE IN THE RATE OF GROWTH IN DOMESTIC DEMAND. AS A CONSEQUENCE, THE POSSIBILITY OF CURTAILMENTS IN NATURAL GAS EXPORTS FOR THE 1976-77 HEATING SEASON HAS BEEN REDUCED CONSIDER-ABLY. I SHARE FRANK ZARB'S CONFIDENCE THAT CANADA WILL
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BE ABLE TO MAINTAIN EXPORT LEVELS IN ACCORDANCE WITH LONG-TERM GAS CONTRACTS.

HOWEVER, CANADIAN DEMAND FOR NATURAL GAS WILL RISE IN THE FUTURE. UNLESS SUBSTANTIAL NEW SUPPLIES ARE BROUGHT TO MARKET, THE POSSIBILITY OF EXPORT CURTAILMENTS LATER IN THIS DECADE REMAINS. ALSO, WE HAVE NOT YET RECEIVED A FORMAL ASSURANCE FROM CANADA THAT SUPPLY/DEMAND CON-

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DITIONS WILL NOT REQUIRE ANY GAS EXPORT CURTAILMENTS DURING THE 1976-77 HEATING SEASON. CANADA RECOGNIZES THE SUBSTANTIAL IMPACT A REDUCTION IN EXPORTS OF NATURAL GAS WOULD HAVE ON THE US, PARTICULARLY IN BORDER REGIONS WHICH ARE SUBSTANTIALLY DEPENDENT ON CANADIAN SUPPLIES. THE CANADIAN GOVERNMENT HAS ASSURED US OF ITS READINESS TO CONSULT CLOSELY IF EXPORT CURTAILMENTS BECOME NECESSARY. WE ARE ENCOURAGED THAT CANADA SEES NO NECESSITY TO BEGIN SUCH DISCUSSIONS WITH US AT THIS TIME.

AS YOU KNOW, NEITHER WE NOR THE CANADIAN GOVERNMENT CURRENTLY HAVE AUTHORITY FOR NATURAL GAS ALLOCATION. LACKING SUCH AUTHORITY, IT WOULD BE DIFFICULT FOR EITHER GOVERNMENT TO DISCUSS ALLOCATION OF REDUCED CANADIAN NATURAL GAS EXPORTS. WHILE CANADA HAS ASSURED US THAT IN THE EVENT OF A GAS CURTAILMENT IT WOULD BE PREPARED TO MAKE EVERY EFFORT TO CONTINUE EXPORTS THROUGH GAS DISTRIBUTION SYSTEMS SELECTED BY THE US, IT NOTED THAT TOTAL SATISFACTION OF US NEEDS MAY NOT BE POSSIBLE.
END QUOTE. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, NATURAL GAS, EXPORTS, AGREEMENT DRAFT, LEGISLATIVE MAIL, DIPLOMATIC COMMUNICATIONS, GAS PIPELINES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE056816
Document Source: CORE
Document Unique ID: 00
Drafter: LRRAICHT:MEP
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760089-0105
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760379/aaaacrxc.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 12 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 APR 2004 by CunninFX>; APPROVED <17 AUG 2004 by SmithRJ>
Review Markings:

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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ANADIAN NATURAL GAS
TAGS: ENRG, CA, US, (HUMPHREY, HUBERT H), (ENDERS, THOMAS O)
To: OTTAWA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006